

7.04 Costs Incurred After Acquisition

Repairs & Maintenance Expense

Revenue Expenditure

This includes costs incurred to keep or restore an asset to its normal operating condition (eg, repairing a damaged truck or routine maintenance, such as engine tune-ups and oil changes). These costs are **expensed** as incurred.

Capital Expenditure

If, however, the cost makes the asset bigger, better, or last longer, that's good, since one would rather capitalize the cost than expense it.

- **Bigger** – additions, new capacity, new functions (eg, a hospital wing)

Asset	X
Cash	X

- **Better** – a betterment or improvement (eg, a rearrangement improving efficiency, replacing a wooden floor with a concrete floor)

Asset	X
Cash	X

- **Longer** – extension of an asset's useful life (overhaul)

- Costs that extend the useful life of the asset are subtracted from accumulated depreciation thereby increasing the carrying value (ie, book value).

Accumulated depreciation	X
Cash	X

Refurbishment

Replace a part of the asset.

- **Identifiable** – Account for as if the old part was sold and it was replaced with a new part.

Accumulated depreciation	X
Loss	X
Asset	X

Asset	X
Cash	X

- **Not Identifiable**

- Enhances the asset (similar to an addition or betterment)

Asset	X
Cash	X

- Increasing the asset's useful life (similar to an extension)

Accumulated depreciation	X
Cash	X